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## **Relational Contracting, Culture and Globalisation**

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### **ABSTRACT**

Successful sustainable relationships rely on relational forms of exchange characterised by high levels of trust but it is generally accepted that the construction industry has a stronger preference for distrust rather than the full benefits of cooperation (Wood and McDermott, 1999). There is a need for culture change to bring about increased cooperation between parties on a long-term basis. However, this trust must be developed across cultures with different values and mores and this presents a unique and complex problem when taken in the context of the temporary multi-organisations which are endemic in the construction industry.

With relational contracting, based on sustainable relationships and trust, a win-win situation can be created for both the client and contractor. The development of trust between organisations is seen as a function of the length of the relationship between them (Bresnen and Marshall, 2000). It is also commonly believed that the construction industry is one which requires lots of trust between participants due to the high uncertainty in the industry. This paper aims to look at how procurement methods are changing and moving towards sustainable procurement forms through a relational contracting approach in a global context. A critical review of partnering and alliancing approaches will be presented, followed by a review of how the change in procurement culture towards sustainable business relationships benefits different parties in the industry and has the potential to achieve empowerment and regional development despite, or maybe because of, the global perspective of the key players. This review is based on research being undertaken in Queensland, Australia but has general applicability.

**Keywords:** Relational contracting, culture, Australia

### **Introduction**

Construction project teams are unique entities, created through a complex interaction of factors, with inter-disciplinary players from many countries, varying roles, responsibilities, goals and objectives (Goodman and Chinowsky, 1996). Collaboration and teamwork are therefore crucial since sharing up-to-date information between participants leads to minimisation of errors, reduction of time delays and breaking the widespread rework cycle, and the formalisation of these issues through partnering mechanisms allows a sustainable relationship between participants to evolve. Benefits of collaborative, rather than adversarial, working relationships within construction organisations are well documented (Walker and Hampson, 2003). All of this is taking place within an increasingly global construction industry which is dominated at the top end by about a dozen, large, mainly European contractors but is implemented at a project level by local people and companies.

Partnering has been defined in many ways. It can be considered as an individual project mechanism or can be considered as a long term strategy. Alliancing is normally assumed to be a long term business strategy linking together client, contractor and supply chain. Relational contracting goes further than this and brings in the whole philosophy of the value chain and the linking of the interdependent parts within the construction project as a key business objective.

A recent survey was conducted with a public sector department in Queensland Australia. The department has recently adopted a relationship management approach in most of their projects. Relational contracting is multilayered and has been discussed and reviewed in *A Review of the Concepts and Definitions of the Various Forms of Relational Contracting (2002-022-A-01)*. A basic, working definition has been adopted (CRC CI, 2002):

“Relationship contracting is based on a recognition of and striving for mutual benefits and win-win scenarios through more cooperative relationships between the parties. Relationship contracting embraces and underpins various approaches, such as partnering, alliancing, joint venturing, and other collaborative working arrangements and better risk sharing mechanisms Relationship contracts are usually long-term, develop and change over time, and involve substantial relations between the parties.”

In Australia it has been identified that there are three levels, namely the Inspector, Engineer and the Project Manager levels, at which relational contracting needs to operate and that each level has its own issues.

<b>Issues</b>	
<b>Inspector</b>	<ul style="list-style-type: none"> <li>• Maintaining quality</li> <li>• Appropriate methods of working</li> </ul>
<b>Engineer</b>	<ul style="list-style-type: none"> <li>• Quality and claims, yet not empowered to make final decisions on claims or encouraged</li> </ul>

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(Individual)	in the contract to be forthright on quality <ul style="list-style-type: none"> <li>• Quality of work life</li> <li>• Opportunity to act in an old-fashioned, professional manner</li> </ul>
<b>Project Manager</b>	<ul style="list-style-type: none"> <li>• Reduction of claims</li> <li>• Timely completion</li> </ul>

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**Table 1 Issues in Relationship Management at the Three Levels**

From Table 1 it can be seen that the relationships within the team are focused on completely different issues at these three different levels. It is anticipated in the literature that the concepts of relational contracting will operate in a smooth and seamless manner throughout the length and breadth of a project but in fact the objectives of the various participants are completely different. Because of this, the work of many writers on partnering can be seen to miss crucial issues: the different levels at which relational contracting takes place being an extremely important one. This has come about because much of the literature is focused purely on the client's objectives and takes little account of the reality of the situation on site where the Inspectors and Foremen, Engineers from client and Contractor and the Contractor's Project Manager and Principal all interact at their own levels and across levels on a day to day basis.

However, throughout the course of this research there is one underlying and obvious point which has surfaced: the Australian culture suits the *Relational Contracting* culture very well. The Australian professional is not afraid of confrontation and is relatively frank and honest, essential prerequisites for successful relational contracting. This approach may not readily suit other cultures, so the approach must be adapted in each domain to suit local culture and sensibilities. Hence, the opportunity is available for Australia to determine its own, distinctive path and appears to be doing so in Queensland.

### **Relational Contracting**

During the course of case studies and interviews the following general issues became apparent:

- Many participants are not used to or familiar with the system in practice;
- A fallacy has become apparent; contractor may mistakenly conceive relational contracting as leading to a "mates rates" approach;
- Relational contracting stimulates communication and breaks down barriers;
- A long-term marketing tool.

With Australian clients having moved from a strong emphasis on hard dollar, traditional contracts to relational contracting, the learning curve for staff has been steep and the number of people exposed first-hand to the experience has been limited. This points to a

need for education and training, for the department staff, contractor staff and consultant staff.

In some instances the authors came across an attitude embodied in the phrase – “you are my mate, you should give me the variation”; this is a misconception of the nature of partnering as a relational contracting strategy. The hard dollar contract still underlies the partnering approach but the role of relational contracting is to proactively manage the project in order to maximise progress (and quality) whilst minimising disputes amongst project team members due to the existence of “us and them” attitudes: partnering seeks to build team relationships whilst tacitly accepting that the tendered contract may inevitably lead to a claim. There appears to be an industry wide issue of education here and the reinforcement of a recognition that there are a number forms of relational contracting, partnering and alliancing for example, which operate under different parameters and which are appropriate for different circumstances.

The role of the facilitator is crucial in this process; by facilitating at the outset the establishment of an atmosphere that promotes open communication, willing cooperation and a brainstorming approach to problem solving a value engineering approach can be brought to bear on project issues and solutions, traditional or innovative, can be invoked. These “channels” need to be kept open and the use of partnering workshops throughout the life of a project are an important mechanism to maintain these changed, non-adversarial attitudes.

There will always be situations where external circumstances, such as an overheated market, will adversely affect a contractor’s ability to perform to the highest standard. In such circumstances, relational contracting focuses on maintaining project performance whilst accepting that a commercial solution to problems will be sought. If this issue can be viewed as an externality by project participants they can be allowed to focus on attaining timely, quality completion and maintaining reputation and honesty. This will then allow commercial issues to be resolved in a more appropriate setting whilst maintaining a proactive attitude on site.

The senior managers on both sides tend to carry out relational contracting in their own way. They do this because they have seen different benefits coming from relational contracting such as future job opportunities and benefits for the organisation. However different levels in the project team see the principles and objectives of relational contracting differently and this issue needs to be addressed.

Clients must be educated to recognise the benefits of relational contracting. They must be weaned away from an expectation to let projects to the lowest tenderer. This may be best promoted through an industry wide forum where all professions and sides of the industry can be seen to support relational contracting.

Relationship contracting should not be seen as a one-off approach which can be switched on and off as necessary. It is in fact an overriding philosophy and a sea-change in the industry’s culture leading to changed attitudes and collaborative, proactive project

management. It is, in essence, what good project management is all about. Hence, there is a need to promote the concept of relationship contracting as “business as usual” and effectively drag the industry “kicking and screaming” into a new era. This is an issue that needs to be addressed at an institutional and educational level i.e. it needs to be driven by the involvement of construction industry clients as a group, contractors’ and suppliers’ associations, professional institutions and consultants associations. It also needs to be underpinned by the education system, at trades and tertiary/professional levels and this must be facilitated by the re-design of curricula for the built environment schools.

### **Benefits of Relational Contracting**

During the course of this research a series of benefits, to different people at different levels, were identified to come about through the adoption of relational contracting approaches. A major advantage was identified in operating on a face to face basis. When the “protective barrier” of “paper warfare” is broken down by a collaborative approach the need to formally document every discussion or event disappears and the traditional, contract specified route for resolution of discrepancies is circumvented. Direct discussion between decision makers is legitimised, as is rapid decision making. The consequence is that participants are more comfortable at devolving decision making to appropriate levels within the organisation and greater job satisfaction ensues.

More enjoyable to go to work was a commonly cited view of relational contracting. When the adversarial nature of the conventional contract is replaced by collaborative, proactive working then participants find work more rewarding and enjoyable. People enjoy going to work in an atmosphere which allows each to make a positive contribution to moving the project forward. Most people are part of this industry because they like to see, and are proud of, their achievement being used and the contribution it makes to society.

Undoubtedly, the atmosphere on a well managed relational contract is more pleasurable to work in and conducive to joint decision making. Innovative solutions are more likely to develop, and consequent cost and time savings and quality improvements accrue, when a number of heads are put together to solve a problem. The range of perspectives brought to bear on the problem may well be enlightening to participants and help them to understand and appreciate more fully the differing objectives which always exist in a project.

By building a the level of trust and being convinced of the contractors competence and trustworthiness, the organisation personnel can be freed from the chore of being on the spot all the time in order to conduct supervision. When the situation arises, when the organisation personnel can trust the Contractor to carry out the job correctly, not only is work more enjoyable but time can be spent on more creative issues and more focus can be given to creating an excellent project.

In a similar manner, the Contractor can usefully make savings also. The organisation is capable of providing assistance on the technical and knowledge aspects of the project and can, in a relational contracting approach, provide faster, better and more solutions to construction problems. More harmonious working relationships allow both parties to focus on work issues rather than other contractual issues. The organisation becomes more proactive in helping the Contractor. The lower level of necessity to use formal channels and documentation allows for more focus on project problem solving but this new regime is dependant on trust being established. Undoubtedly, the sources of claims still need to be documented but this is not the central focus of either party. When the situation arises as “business as usual” when both sides are proactive in solving construction problems then a new focus of attention can emerge. This is the use of ICT within the construction project management process. By automating document handling and visualising the construction project both sides of the team can more readily focus on Value Engineering issues and the improvement of project quality.

However, from a critical point of view it has been pointed out that training and education are key issues which can facilitate this move from adversarial to proactive relationships in the project team. This training and education needs to be focused on the skills and techniques and philosophy of relational contracting.

At a state level, relational contracting has the potential to deliver on government priorities such as regional and industry development, empowerment, work life balance and a sustainable industry (in terms of economics, environment and people). This being an internal marketing issue should be fully realised and utilised by the organisation.

### **Why Relational Contracting does not Work on some Projects**

One of the most common observations while conducting this research is that not all participants believe in the efficacy of relational contracting. In order to overcome this barrier it is necessary to involve all staff at all levels, revisit the initial relational contracting workshop and re-facilitate regularly and, finally, identify champions to drive the process at all levels within the project organisation.

The other observation is problems arise in communication and adoption of proactive approaches. This occurs as some project team members have not attended all of the workshops, or any of the workshops, and have not been brought into the relational contracting philosophy. A possible solution to this issue is to make the management of relational contracting projects part of craft training, tertiary education and HRM policy.

High turnover of personnel in the project team has always been a problem in the industry. Where there is a high turnover of personnel from participating organisations, it is a serious impediment to the relational contracting project. One solution to this may be to invoke a stability clause in the conditions of contract under which the relational contracting project is conducted. It is essential that the contractor buys into the continuity of staff issue but the role of consultants in this respect must be addressed as

there is evidence that consultants are a common source of problem. In order to address the issue of releasing staff to attend facilitated and regular relational contracting meetings, the client's organisation should consider building this into budgets as set at the outset of the project.

An example of a relational contracting contract at Contractor's request is presented as follows. Unlike most relational contracts which are driven by the client organisation, the contracting organisation pushed very hard for the project to be carried out in a relational contracting fashion. The project was not intended to be a relational contract. A common goal was developed by and for the whole project team at the beginning of the project. The Contractor supplied their own internal partnering facilitator. Relationship in the project started off well after the initial workshop and the project was completed at a high quality fashion, within budget and the timeframe.

### **Partnering Facilitator**

Most participants felt that the facilitator should be a neutral party but the authors are aware of situations where a facilitator has been supplied by one or other party and the process has been successful. Either employing a third party as facilitator or a Contractor supplying its own facilitator are scenarios which can also work successfully.

Even with the right or good facilitator, whether relational contracting would work or not also depends on the attitudes of senior management in both organisations – even on different projects within the same organisation. It is not just the Contractor or the client who needs training or has the wrong attitude: it is an industry wide issue involving attitude change through education, training and experience.

The question now raises is how are these lesson to be communicated to the whole of the organisation staff? As a starting point, the learning register needs to be used more effectively throughout the organisation and relational contracting reinforced during the course of the project. For example, on a project where an "Alliance Manager" is in place, it has become apparent that the day to day management of the alliance or relational contracting project is crucially important to success. Hence, there is a need for a part-time role to fill this particular position in normal contracts. So, when we address the key issues in relational contracting, we need to be able to clearly state our selection procedures and protocols. In essence, this is a research objective or outcome and there is a need for the project participants to draw these issues together from existing experience and so consolidate this into a new protocol.

To achieve the new protocol is a matter which needs industry wide debate and commitment but obvious areas which need attention are syllabus changes in learning institutions so as to prepare graduates coming into the industry for relational contracting projects, development of training courses so as to provide additional skills and develop team building and preparation of information handouts as reinforcement for lessons learned.



## **Building a Successful Relational Contracting Culture**

The following points can be considered received knowledge and pertinent questions for selecting people to participate in a successful relational contracting system:

- Employ the right people. Believing in relational contracting being one of the considerations in the recruitment process. What are the "right" criteria?
- Provision of training and development on relational contracting, company and industry wide;
- A policy issue arises here – including relational contracting skills as one of the recruitment criteria, not just possession of, say, an Engineering degree. This does not happen very often at present and so raises the following questions:
  - Is there a need to include this into formal graduate curricula and other training courses?
  - One cannot include relationship training if it is not taught. Who will provide the training material?
  - Should contractors be expected to and how can contractors train their own staff?
- There must be a commitment from both sides to send ALL personnel along to the relational contracting workshops and to maintain a stable project team throughout the project.

## **Should Relational Contracting be Applied to Smaller Projects?**

In terms of answers to this question delivered during the research the following can be considered to be received wisdom:

- It can be, even projects with a time frame of less than 6 months;
- Not necessarily a full scale partnering approach. Can be with a small workshop (e.g. half day) with about 4-5 people and facilitated by an internal person, which would help to get the communication going, set up partnering charter, set up 4-5 objectives and do the scoring each month;
- A short RM meeting which lasts for about 20-60 minutes can be held once a month;
- It is beneficial to hold a pre-start (initial) workshop outlining the relationship principles;
- Yet, again, in order for this to work, commitment is essential from both sides' leaders.

## **Conclusions**

Alliancing, partnering and relational contracting, all have a common theme, which is to develop a long-term relationship for such to be applied successfully. Successful sustainable relationships rely on relational forms of exchange, with high levels of trust and open and frank communication. The Australian culture is found to suit the *Relational Contracting* culture very well. The Australian professional is not afraid of confrontation and adopts an open and frank communication approach. In Australia, it has been identified the three levels, namely Inspector, Engineer and Project Manager, at which relational contracting needs to operate. Also, the issues concerned in relationship at each level are different. In order for relational contracting to be successful, realising and understanding the different levels at which relational contracting takes place is an extremely important issue.

Relational contracting brings about a more proactive and collaborative working approach. People find work more rewarding and enjoyable. There is much less paperwork to deal with and the traditional, contract specified route for problem resolution is circumvented. During the process, a level of trust is built. Also, problem resolution on the technical and knowledge aspects of the project is shared, providing faster, better and more solutions in a relational contracting approach. Other than at the operation level, relational contracting, at a state level, has the potential to deliver on government priorities such as regional and industry development, empowerment, work life balance and a sustainable industry.

Problems may be overcome by education, training and experience. By making the management of relational contracting project part of craft training, tertiary education and management policy, project team members can be predisposed to buying into the relational contracting philosophy, even those who have not attended all (or any) of the workshops. A good facilitator is important to the success of a relational contract but, other than a good facilitator, the right attitude of senior management in both organisations is also important.

Furthermore, major issues emerge in this research project which link to other research, such as: choice of project delivery process; change of culture and development of real teams; a sustainable approach to the industry in terms of people, environment and economics; ICT as a facilitator for these changes.

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